



STATE OF TENNESSEE  
**COMPTROLLER OF THE TREASURY**  
State Capitol  
Nashville, Tennessee 37243-9034  
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Justin P. Wilson  
Comptroller

July 8, 2009

The Honorable David Goetz, Commissioner  
Tennessee Department of Finance and Administration  
State Capitol  
Nashville, Tennessee 37243

Dear Dave:

As you know, in the course of our efforts to obtain candid feedback from the state employees attempting to implement Edison, we received a significant number of comments regarding the temptation for individuals to “work around” the system. This is always a problem and a concern for auditors and for management. This is not limited to new systems.

“Workarounds”—regardless of the initial motivation, which may be innocuous, and in certain cases may even be praiseworthy—are a serious threat with regard to fraud, waste or abuse. Staff who find such “back door” approaches to getting transactions initiated, approved, and executed are circumventing the internal controls. Internal controls afford management assurances that the information in the system is accurate, complete, and timely. Internal controls also ensure that transactions comply with pertinent laws, rules, regulations, grants, contracts, policies, and procedures.

There is a risk of fraud, waste, and abuse present in every situation. A primary responsibility of management at all levels is to engage in a documented assessment of those risks and then to design and implement adequate internal controls to mitigate effectively those risks. Management should have a process to ensure that the controls are effective and are working as designed. A key part of that process is an on-going monitoring program, in which individuals independent of the transaction or operation regularly review the transactions/operations. Deviations or other concerns should be promptly and thoroughly reported to someone at a higher level in the organization for further review and remediation. After all, if there are no consequences for circumvention or non-compliance with internal controls, there are, in effect, no controls. People will realize that they can ignore the controls without penalty.

For many years, our two offices have led the way in ensuring that all state officials take their responsibilities for risk assessment and internal controls seriously. Together we have supported legislation that has extended those requirements to state boards and commissions that have the power to hire and fire their staff, including foundations in higher education.

Risk assessment and mitigation are core activities essential to effective management and are reflected in the Financial Integrity Act as overseen by our two organizations. Likewise, auditing standards are also founded on the concepts of risk and mitigation of risk. Those standards and our joint efforts include many examples of indications when those risks are particularly high. Those examples are mostly common sense situations and include such things as new systems, complex systems, and situations in which staff have expressed dissatisfaction that might be a motive to disregard or even override internal controls.

As we all know, we are faced with unprecedented challenges in the next few years, with the current budget reductions and the Recovery Act funding. Existing controls will be tested as never before through the sheer stress of staff reductions and increased Recovery Act spending, coupled with the mandate to expend the Recovery Act funds more quickly than ever before. This is a challenge even for well-established controls.

The combination of tremendous pressures, higher risks associated with the efforts to bring the Edison system on line, and the concerns and frustrations of users increases exponentially the potential for fraud, waste, and abuse—not to mention the potential for honest errors.

For these reasons, I would ask that you and your staff carefully review the information we have provided you concerning those risks. It may be that some of the information is not as specific as any of us would like, but that is the nature of this work.

Of course, our work was just the beginning. Although we sought to assist you by providing a mechanism to receive information that you may not have otherwise considered, the real answer is for your staff to listen to the loyal state employees who want to make the system work. They know problems with the system and can provide the leadership, technical expertise, and practical “know-how.” Your staff and the appropriate agencies can then more effectively recognize and document risks and ensure that mitigating controls are implemented, monitored, and documented adequately.

It might be a good idea to encourage staff to point out any methods they have used to get the work done that were inconsistent with the way the transactions were drawn up by Edison, without negative consequences for the staff. Now is the time for them to come forward and explain what shortcuts they found. Not only can that help your staff better understand all of the intricacies of the system, but it will also assist your experts to ensure that effective controls are built into the system—a key element of system implementation. A part of those controls will be ensuring that problems are noted timely and remediated effectively and that our office is advised appropriately of any information that may be pertinent to our audit efforts or that may be required by law, such as fraud.

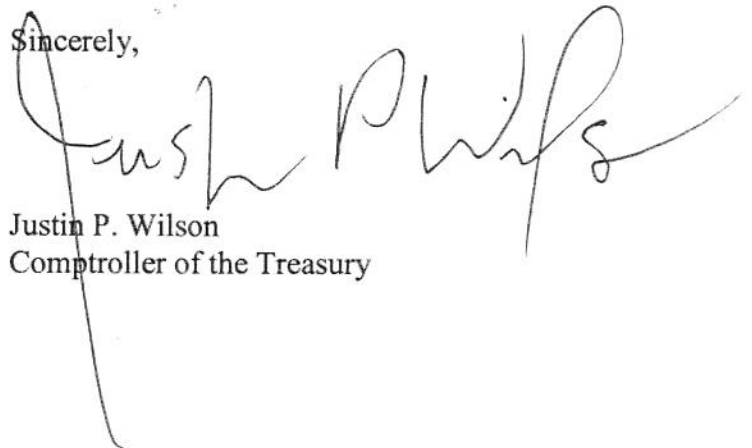
Of course, all of the issues noted concerning Edison are of concern to us as we audit the state’s operations. To that end, as we discussed with the representatives of the Gartner Group when they met with us early in their review, we will be reviewing the details of the Gartner Group’s work as part of our planning for our audits to ensure that we build upon the work the state has already paid for and upon their expertise. It will also be essential for us to review the steps your staff will be taking to comply with their recommendations and findings and to assess the risks posed by the implementation of Edison. Our review and evaluation of those efforts will be a key part of our future audit efforts. This is the way such matters

should be handled. The primary responsibility for identifying and mitigating all risks lies with management.

I know that you and your staff have worked very hard in trying to give the State of Tennessee the most modern and efficient systems available to work for our citizens. I am confident that you and your team will continue to support Tennessee's employees to make Edison work as planned and to ensure that it reports accurate, complete, timely, and reliable information.

Thank you for this work.

Sincerely,

A handwritten signature in black ink, appearing to read "Justin P. Wilson". The signature is fluid and cursive, with a long vertical line extending downwards from the bottom of the signature.

Justin P. Wilson  
Comptroller of the Treasury

JPW/gmk  
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